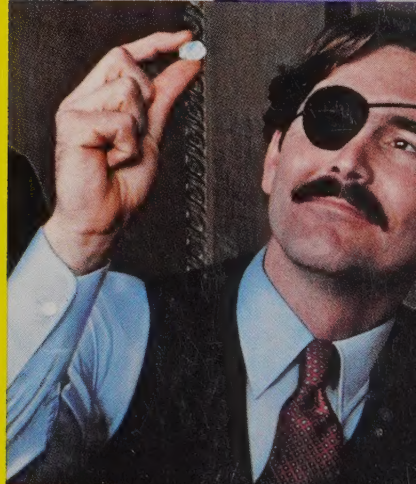


Warner's
Hathaway
Croydon
Botnick
Parker
White Stag

AR42

WARNACO



Financial Highlights—Pro Forma Combined⁽¹⁾

WARNACO OF CANADA LIMITED

(Dollars in thousands except per share data)	1978	1977	1976	1975	1974
Net sales	\$46,080	42,356	\$41,565	\$33,659	\$28,605
Earnings before income taxes	3,113	2,242	3,341	3,746	3,757
Earnings for the year	1,802	1,307	1,679	2,067	2,059
Earnings per share	\$1.80	\$1.31	\$1.68	\$2.07	\$2.06

(1) The pro forma presentation reflects the operating results for White Stag of Canada only from the effective date of acquisition, August 1, 1975.

Warnaco of Canada Limited is one of the nation's largest apparel companies whose business units market leading brands in attire and leisure products. Among these labels are: Warner's intimate apparel; Hathaway and Dior men's dress and sport shirts; Dior sweaters; White Stag women's sportswear, as well as men's and women's ski, tennis and other active sportswear; Croydon rain and outerwear, for men and women; Don Parker men's slacks; Puritan men's slacks, sweaters and sport shirts; High Tide junior swimwear and cover-ups and Speedo racing and fashion swimsuits.

To the Shareholders:

The year 1978 was a good year for the Company. Net sales reached \$46,080,000, up from \$42,356,000 in 1977, an increase of 9%. Net earnings rose by 38%, from \$1,307,000 to \$1,802,000, or \$1.80 per common share compared to \$1.31 the previous year.

Retail activity at most apparel outlets was strong through the year, particularly during the last half, and as a key supplier to the trade, Warnaco products were in good demand. Once again manufacturing costs increased steadily and gross margins were difficult to maintain at a satisfactory level. The continuing weak-

ness of the Canadian dollar against the Japanese Yen, Swiss Franc, and the German Mark, caused increased costs and severe dislocation in the supply of imported raw materials and finished goods. Negotiations with labour unions were concluded satisfactorily with no disruption to manufacturing schedules.

The Company again demonstrated the soundness of its policy of diversifying its product lines within the apparel industry. Consumer acceptance of the Company's nationally advertised brands is excellent and such diversification enables the manufacturing divisions to resist wide swings in weather, abrupt changes in fashion, periodic inventory build-ups or cut-backs, in their respective markets. As a result, the annual performance is more likely to reflect the strength of consumer demand, and in 1978 that demand was strong.

Some of the divisions produced outstanding results. The Botnick Division, marketing Speedo swimwear and leisurewear, White Stag skiwear, and High Tide swimwear, again showed record sales and profits in all product lines. Warner's, the intimate apparel division, had an exceptionally good year and is going into 1979 with increased production facilities. Warner's will be adding a new Christian Dior group to its existing lines in 1979 and will have this high fashion line in the stores by late spring.

Hathaway, the men's dress and sport shirt division, ended the year slightly ahead. The ladies' dress shirt line continues to show steady



Harold H. Botnick

growth. Croydon, the men's and ladies' outerwear division, continued to show excellent growth in the ladies' lines and was able to maintain its commanding position in the men's rainwear and outerwear field.

White Stag of Canada now comprises the ladies' White Stag as well as the men's Parker and Puritan sportswear lines. During the year, the Parker operation was moved into the White Stag facility. This move has

resulted in significant operational savings and gives every indication that 1979 savings will be substantial. The former Parker premises have been put on the market for sale.

I would like to express my thanks to the Board for its continued support, and to the 1,200 employees whose motivation, skill and enthusiasm have made possible the growth of the Company. I would also like to thank the public and store customers for their continued support of the Company's products.

The first half of 1979 appears to be strong in the manufacturing area and fall bookings look encouraging. With a commanding position in the apparel market, Warnaco of Canada Limited looks forward to a satisfactory year.

Harold H. Botnick
President and Chief
Executive Officer

Prescott, Ontario
March, 1979

Statement of Earnings and Retained Earnings

WARNACO OF CANADA LIMITED

	52 weeks ended December 30, 1978	52 weeks ended December 31, 1977
Net sales	\$46,080,000	\$42,356,000
Cost of goods sold	33,788,000	31,370,000
Gross margin	12,292,000	10,986,000
Expenses:		
Selling	5,329,000	5,120,000
Administration and general	3,156,000	3,055,000
Interest:		
Current debt	600,000	459,000
Long-term debt	94,000	110,000
	9,179,000	8,744,000
Earnings before income taxes	3,113,000	2,242,000
Income taxes:		
Current	825,000	1,407,000
Deferred: current	445,000	(445,000)
non-current	41,000	(27,000)
	1,311,000	935,000
Earnings for the year	1,802,000	1,307,000
Retained earnings at beginning of year	8,769,000	8,002,000
	10,571,000	9,309,000
Dividends of \$0.54 per common share (1977 — \$0.54)	540,000	540,000
Retained earnings at end of year	<u>\$10,031,000</u>	<u>\$ 8,769,000</u>
Earnings per share	<u>\$1.80</u>	<u>\$1.31</u>

Balance Sheet

WARNACO OF CANADA LIMITED

Assets	December 30, 1978	December 31, 1977
Current:		
Accounts receivable	\$ 7,235,000	\$ 6,942,000
Inventories (Note 2)	11,377,000	12,355,000
Prepaid expenses	264,000	204,000
Deferred income taxes	—	445,000
	<u>18,876,000</u>	<u>19,946,000</u>
Fixed assets, at cost (Note 3)	5,075,000	4,946,000
Less: Accumulated depreciation	3,068,000	2,734,000
	<u>2,007,000</u>	<u>2,212,000</u>
Excess of cost over net tangible assets of businesses acquired	3,611,000	3,611,000
Other assets, at cost less amortization (Note 4)	659,000	361,000
	<u>\$25,153,000</u>	<u>\$26,130,000</u>

Liabilities and Shareholders' Equity

December 30, 1978

December 31, 1977

Current:

Bank indebtedness	\$ 1,712,000	\$ 3,640,000
Accounts payable and accrued liabilities	3,109,000	4,244,000
Due to affiliated companies	2,223,000	2,077,000
Dividends payable	135,000	135,000
Income taxes payable	793,000	96,000
Current portion of long-term debt	—	60,000
	7,972,000	10,252,000
Long-term debt (Note 5)	1,265,000	1,265,000
Deferred income taxes	297,000	256,000
	9,534,000	11,773,000

Shareholders' equity:

Capital stock—		
Issued and outstanding—		
1,000,000 common shares	5,588,000	5,588,000
Retained earnings	10,031,000	8,769,000
	15,619,000	14,357,000
Contingent liabilities and commitments (Note 6)		
	<u>\$25,153,000</u>	<u>\$26,130,000</u>

Approved by the Board:
Edward Lawrence, Director
Warren Y. Soper, Director

Statement of Changes in Financial Position

WARNACO OF CANADA LIMITED

	52 weeks ended December 30, 1978	52 weeks ended December 31, 1977
Source of funds:		
Earnings for the year	\$ 1,802,000	\$1,307,000
Add: Items not involving current funds:		
Depreciation	393,000	451,000
Deferred income taxes	41,000	(27,000)
Amortization	42,000	42,000
	<u>2,278,000</u>	<u>1,773,000</u>
Disposition of funds:		
Additions to fixed assets, net of minor disposals	188,000	353,000
Exercise of option to acquire real estate now held for sale	340,000	—
Net change in long-term debt	—	(70,000)
Payment of dividends	540,000	540,000
	<u>1,068,000</u>	<u>823,000</u>
Net increase in working capital	\$ 1,210,000	950,000
Working capital at beginning of year	9,694,000	8,744,000
Working capital at end of year	<u>\$10,904,000</u>	<u>\$9,694,000</u>

Notes to Financial Statements

WARNACO OF CANADA LIMITED December 30, 1978

1. Summary of accounting policies:

Inventories: Inventories are stated at the lower of cost and net realizable value. Cost is determined principally on the bases of standard costs (which approximate actual costs) and actual costs.

Depreciation and amortization: Depreciation is calculated on a diminishing balance basis at annual rates of 5% on buildings, 20% on machinery and equipment and 30% on automotive equipment. Leasehold improvements are amortized over the terms of the leases (plus the first renewal option term in certain cases).

Excess of cost over net tangible assets of businesses acquired: It is the policy of the Company not to amortize this asset unless the value has been permanently impaired.

Other assets: Intangible assets acquired on the acquisition of the net assets of White Stag of Canada Ltd. are being amortized as follows:

Goodwill — over 40 years commencing 1975

Leasehold interest — over a twelve and one-half year period commencing in 1975, which represents the remaining term of the lease plus the first renewal option

License — over the remaining term of the license

Long-term debt: Foreign currency long-term debt is translated in the accounts at the rate existing when the debt was incurred.

Deferred income taxes: Deferred income taxes are provided for expense items (essentially depreciation) reported for tax purposes in different periods than for financial reporting purposes, thus creating a timing difference the tax effect of which is reflected under this heading.

Research and development: Market research and product development costs are charged to operations as incurred.

2. Inventories:

	December 30, 1978	December 31, 1977
Raw materials	\$ 3,174,000	\$ 3,203,000
Work in process	1,619,000	1,562,000
Finished goods	6,584,000	7,590,000
	<u>\$11,377,000</u>	<u>\$12,355,000</u>

3. Fixed assets:

	December 30, 1978	December 31, 1977
Land and buildings	\$ 525,000	\$ 515,000
Machinery and equipment	3,998,000	3,965,000
Leasehold improvements	552,000	466,000
	5,075,000	4,946,000
Accumulated depreciation	3,068,000	2,734,000
	<u>\$2,007,000</u>	<u>\$2,212,000</u>

Depreciation expense amounted to \$393,000 in 1978 (1977 — \$451,000).

4. Other assets:

December 30, 1978 December 31, 1977

Assets acquired from White Stag of Canada—		
Leasehold interest	\$235,000	\$235,000
License	100,000	100,000
Goodwill	128,000	128,000
	463,000	463,000
Less: Accumulated amortization	144,000	102,000
	319,000	361,000
Real estate held for sale	340,000	—
	<u>\$659,000</u>	<u>\$361,000</u>

5. Long-term debt:

December 30, 1978 December 31, 1977

Payable to affiliated companies in U.S. currency—		
7% loans repayable in 1980	\$ 185,000	\$1,015,000
Deferred installments repayable after January 1, 1980 at variable interest rates (see below)	1,080,000	—
9 ³ / ₈ % loans repayable in 1979	—	250,000
Agreement payable \$60,000 annually plus interest at bank prime rate	—	60,000
	1,265,000	1,325,000
Less: Current portion	—	60,000
	<u>\$1,265,000</u>	<u>\$1,265,000</u>

If translated at the exchange rate prevailing at December 30, 1978, the Canadian dollar equivalent of the U.S. dollar debt of \$1,265,000 would be \$1,500,000. The U.S. parent has agreed on behalf of the affiliated companies to defer until 1980 at least, the 1977, 1978 and 1979 installments of U.S. \$1,080,000 in aggregate due on this debt. In consideration of the deferment, the Company has agreed to pay interest on the \$1,080,000 based on the month-end posted rate of the First National Bank of Boston. At January 31, 1979 this rate was 11³/₄%.

6. Contingent liabilities and commitments:

Minimum annual rental commitments under non-cancellable leases entered into by the Company amount to:

1979	\$634,000
1980	600,000
1981	311,000
1982	256,000
1983	185,000
1984-1987	248,000

These leases are mainly for buildings and office premises and the rental expense in 1978 amounted to \$557,000 (1977 — \$620,000).

7. Remuneration of Directors and Officers:

The Company has ten directors (eleven in 1977) who received aggregate remuneration as directors of \$14,200 (\$12,000 in 1977). The Company's five officers (eleven in 1977), three of whom are also directors (three in 1977), received aggregate remuneration of \$255,000 (1977 — \$533,000).

Auditors' Report

To the Shareholders of Warnaco of Canada Limited:

We have examined the balance sheet of Warnaco of Canada Limited as at December 30, 1978 and the statements of earnings and retained earnings and changes in financial position of the Company for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Company as at December 30, 1978 and the results of the operations and the changes in the financial position of the Company for the fiscal year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Pricewaterhouse *Chs.*

Chartered Accountants
Montreal, February 2, 1979

Executive Officers

J. C. Walker

Chairman

H. H. Botnick

President and

Chief Executive Officer, and
President, Botnick Division

T. R. Hornby, C.A.

Vice President and Treasurer

D. B. Wilkie

Secretary

R. A. Barkey

Assistant Treasurer

Division Officers

A. A. Boyd

President, White Stag

T. A. F. Clarke

Executive Vice President,
Croydon

E. A. Turner

President, Warner's

R. G. Wilson

President, Hathaway

Board of Directors

Harold H. Botnick

President and

Chief Executive Officer,
Warnaco of Canada Limited

John W. Field

Chairman, Warnaco Inc.

James P. Gillies

President,

Warnaco International Inc.

William M. Jennings

Partner, law firm of

Simpson, Thacher & Bartlett

Edward Lawrence

Financial Consultant

Thomas A. Lindsay

Business Consultant

Paul B. Paine, Q.C.

Chairman, President and

Chief Executive Officer,

Montreal Trust Company

Warren Y. Soper

Vice President, investment

firm of Pitfield Mackay

Ross Limited

James C. Walker

Chairman, Warnaco of

Canada Limited and

President and Chief Executive

Officer, Warnaco Inc.

Donald B. Wilkie

Partner, law firm of

Duquet & Bronstetter

Executive Offices

St. Lawrence Street

Prescott, Ontario

K0E 1T0

Listed (WRN)

Toronto Stock Exchange

Annual Meeting

The annual meeting of shareholders of
Warnaco of Canada Limited will be
held at 10:00 a.m. on Tuesday, April 24,
1979 at the Chateau Laurier Hotel,
Ottawa, Ontario

Registrar and Transfer Agent

Montreal Trust Company

1 Place Ville Marie

Montreal, Quebec

H3B 4A5

Auditors

Price Waterhouse & Co.

1200 McGill College Avenue

Montreal, Quebec

H3B 2G4

